



INTERNAL AUDIT DIVISION

AUDIT REPORT 2013/034

Audit of the UN-Habitat Field Office in Haiti

Overall results relating to the effective and efficient implementation of the UN-Habitat programme in Haiti were initially assessed as partially. Implementation of four important recommendations remains in progress.

FINAL OVERALL RATING: PARTIALLY SATISFACTORY

27 March 2013

Assignment No. AA2012/250/01

CONTENTS

	<i>Page</i>
I. BACKGROUND	1-2
II. OBJECTIVE AND SCOPE	2-3
III. AUDIT RESULTS	3-7
A. Project management capacity	4
B. Performance monitoring indicators and mechanisms	5
C. Regulatory framework	5-7
D. Security management systems	7
IV. ACKNOWLEDGEMENT	7
ANNEX I Status of audit recommendations	
APPENDIX 1 Management response from UN-Habitat	
APPENDIX 2 Management response from United Nations Office at Nairobi	

AUDIT REPORT

Audit of UN-Habit Field Office in Haiti

I. BACKGROUND

1. The Office of Internal Oversight Services (OIOS) conducted an audit of the United Nations Human Settlements Programme (UN-Habitat) Field Office in Haiti.

2. In accordance with its mandate, OIOS provides assurance and advice on the adequacy and effectiveness of the United Nations internal control system, the primary objectives of which are to ensure (a) efficient and effective operations; (b) accurate financial and operational reporting; (c) safeguarding of assets; and (d) compliance with mandates, regulations, and rules.

3. A destructive earthquake in Haiti on 12 January 2010 caused destruction estimated at \$7.8 billion, leaving around 200,000 people dead, 700,000 households destroyed, 1.3 million people homeless and further crippled the local institutional setting and governance capacity, destroying the vast majority of public offices and infrastructure, and killing around 30 per cent of civil servants. This created an unprecedented situation of urban destruction and the need for wide scope interventions in terms of humanitarian and developmental support over a reasonably long period. The international community responded with financial, material and human resources channeled through a large number of institutional and civil society actors. The first phase of the emergency and recovery interventions was accompanied by: a cholera epidemic at the end of 2010 whose effects stretched in 2011; political tensions before and after the elections of the new president from November 2010 through May 2012, the impact of major meteorological events, including a major hurricane in 2011, and increasing food insecurity.

4. Within the larger international framework of interventions, the activities of the United Nations family, consisting of 18 Agencies and the United Nations Stabilization Mission in Haiti (MINUSTAH), were guided by the definition of an Integrated Strategic Framework (ISF) similar to the National Development Plan of the Haitian Government for the period 2010-2012. The United Nations family worked closely with international and local partners and deployed thousands of international and national civil and military staff, hundreds of which were attached to Government institutions throughout the 12 humanitarian clusters set up for the coordination of humanitarian actions. In addition to projects of individual UN Agencies, there were 10 joint programmes for a total value in excess of \$200 million. A new ISF for 2013-2016 would address humanitarian, development and stabilization priorities.

5. UN-Habitat promotes socially and environmentally sustainable towns and cities with the goal of providing adequate shelter for all. Within the Haitian context, UN-Habitat has focused its interventions into various areas including:

- shelter cluster coordination;
- technical assistance for the formulation of a housing policy and strategy;
- advisory services to governmental (such as the Ministry of Public Works, the Ministry of Planning and External Cooperation, the Ministry of Interior, Territorial Collectives and National Defense, the Haitian Institute for Geo-Spatial Information, the recently constituted Unit for Reconstruction of Housing and Public Buildings) and non-governmental organizations (NGOs); and
- support for social mobilization and community planning for decision making, developing tools such as the neighbourhood profiles to facilitate and guide recovery and reconstruction planning and activities for a safe return of people to their neighbourhoods of origin, and for addressing the cholera epidemic emergency.

6. Major projects in which UN-Habitat was involved from January 2010 through August 2012 included a project for the coordination of the Shelter Cluster, two projects for managing debris, a project to favour the return to the neighbourhoods and another one to support reconstruction. Table 1 shows the income, expenditures and timelines for UN-Habitat interventions in Haiti. In addition, UN-Habitat contributed to a major project (named F16/6) through activities run under a parallel project funded by the Haiti Government and the HRF to support reconstruction of buildings and neighborhoods. As at August 2012, UN-Habitat, with the support and under the oversight of UN-Habitat Regional Office for Latin America and the Caribbean (ROLAC), had mobilized funds in excess of \$22 million, recorded expenditure in excess of \$10 million, and set up a project office consisting of 30 International and National staff.

Table 1 – Project portfolio as at 31 August 3012

Project portfolio	Timeline	Income	Expenditure
F089, 91, 93, 94	2010-2011	\$4,388,256	\$4,092,546
F099	2011	463,743	531,358
F100	2011	261,292	245,593
F098	2011-2012	1,027,481	1,064,817
F103	2011-2012	2,514,500	2,024,206
F105	2011-2014	10,266,140	2,141,549
F106	2011-2014	982,482	542,353
F110	2012-2014	1,292,374	61,794
Total		\$21,196,268	\$10,704,216

Source: IMIS (31 August 2012)

7. Comments provided by UN-Habitat and United Nations Office at Nairobi are incorporated in *italics*.

II. OBJECTIVE AND SCOPE

8. The audit was conducted to assess the adequacy and effectiveness of the UN-Habitat governance, risk management and control processes in providing reasonable assurance regarding the **effective and efficient implementation of the UN-Habitat programme in Haiti**.

9. OIOS included the assignment in the 2012 internal audit work plan following a request by UN-Habitat to review controls that were in place to mitigate performance and other operational risks.

10. The key controls tested for the audit were: (a) project management capacity; (b) performance monitoring indicators and mechanisms; (c) regulatory framework; and (d) security management systems. For the purpose of this audit, OIOS defined these key controls as follows:

(a) **Project management capacity** - controls that provide reasonable assurance that there is sufficient project management capacity to achieve mandates. This includes: sufficient financial resources; sufficient and competent human resources; and appropriate project management tools, e.g., methodology and systems.

(b) **Performance monitoring indicators and mechanisms** - controls that provide reasonable assurance that metrics are: (i) established and appropriate to enable measurement of the efficiency and effectiveness of operations; (ii) prepared in compliance with rules and are properly reported on; and (iii) used to manage operations appropriately.

(c) **Regulatory framework** - controls that provide reasonable assurance that policies and procedures: (i) exist to guide the operations of the activity/programme in Haiti (ii) are implemented consistently; and (iii) ensure the reliability and integrity of financial and operational information.

(d) **Security management systems** - controls that provide reasonable assurance that security management system are commensurate to the safety and security risks. This includes compliance with the Minimum Operating Security Standards.

11. The key controls were assessed for the control objectives shown in Table 2. Certain control objectives (shown in Table 2 as “Not assessed”) were not relevant to the scope defined for this audit.

12. OIOS conducted the audit from September to November 2012. The audit covered the period from 1 January 2010 to 31 August 2012. The audit covered the totality of the project activities so far implemented for a total expenditure close to \$11 million.

13. OIOS conducted an activity-level risk assessment to identify and assess specific risk exposures, and to confirm the relevance of the selected key controls in mitigating associated risks. Through interviews, analytical reviews and tests of controls, OIOS assessed the existence and adequacy of internal controls and conducted necessary tests to determine their effectiveness both at UN-Habitat Headquarters in Nairobi and the Field Office in Port-Au-Prince, Haiti. Tests included review of documentation, physical verification of outputs in Haiti and interviewing staff members from UN-Habitat Headquarters, ROLAC, UN-Habitat Field Office in Haiti, implementing partners (United Nations and civil society), donors and government counterparts.

III. AUDIT RESULTS

14. The UN-Habitat governance, risk management and control processes examined were **partially satisfactory** in providing reasonable assurance regarding the **effective and efficient implementation of the UN-Habitat programme in Haiti**. OIOS made four recommendations to address issues identified in the audit. Project management capacity was satisfactory as UN-Habitat had appropriate emergency response protocol and delegation of authority. Performance indicators and monitoring were in place and reports were adequate. Regulatory framework was partially unsatisfactory because risks relating to erroneous payments and transfer of ownership of assets were not adequately mitigated. Security management systems were partially satisfactory because a number of weaknesses as regards full compliance with the Minimum Operating Security Standards (MOSS) still needed to be addressed.

15. The initial overall rating was based on the assessment of key controls presented in Table 2 below. The final overall rating is **partially satisfactory** as implementation of four important recommendations remains in progress.

Table 2: Assessment of key controls

Business objective(s)	Key controls	Control objectives			
		Efficient and effective operations	Accurate financial and operational reporting	Safeguarding of assets	Compliance with mandates, regulations and rules
Effective and efficient implementation of UN-Habitat programme in Haiti	(a) Project management capacity	Satisfactory	Not assessed	Not assessed	Satisfactory
	(b) Performance monitoring indicators and mechanisms	Satisfactory	Satisfactory	Not assessed	Satisfactory
	(c) Regulatory framework	Partially Satisfactory	Partially satisfactory	Partially satisfactory	Partially satisfactory
	(d) Security management systems	Partially Satisfactory	Not assessed	Partially satisfactory	Partially satisfactory
FINAL OVERALL RATING: PARTIALLY SATISFACTORY					

A. Project management capacity

Emergency response protocol and delegation of authority were satisfactory

16. In June 2012 UN-Habitat revised its emergency response protocol to improve effectiveness of logistical and administrative response to emergencies. Prior to the January 2010 earthquake, UN-Habitat only had a portfolio of global and inter-regional projects that did not require a permanent physical presence in Haiti. Soon after the earthquake UN-Habitat deployed a small team of substantive staff from ROLAC and Headquarters on an assessment and project formulation mission, which resulted in the quick mobilization of funds to support emergency interventions first and recovery later. As at August 2012, UN-Habitat, with the support and under the oversight of ROLAC, had mobilized funds in excess of \$22 million and set up a project office consisting of 30 International and National staff.

17. Despite the initial success in mobilizing funds, the implementation of projects and achievement of results had been hindered by factors, such as the inadequacy of the funds and policies for logistical and administrative support provided to the initial assessment mission. For example, the lack of adequate policies and procedures for delegation of authority for emergency situation and minimal initial budget allocation of \$25,000 for the assessment mission which did not provide for the participation of administrative staff to assess the need for and availability of support services on site, resulted in longer timelines to mobilize projects.

18. In August 2012, UN-Habitat provided funds and made changes in the delegation of authority structure to ensure that administrative support was sufficient to improve project implementation and developed procedures to adequately cover emergency situations. Project management capacity was therefore assessed as satisfactory.

B. Performance monitoring indicators and mechanisms

Project logical frameworks and related metrics were in place

19. UN-Habitat had an approved Medium Term Strategic and Institutional Plan (MTSIP) for the period 2008-2013, which set out the organization's strategic aims and priorities around six focus areas. Every project was aligned with the overall result framework established through the MTSIP. OIOS assessed that the results and the related metrics adopted in the projects reviewed were adequate to capture project performance, and performance was reported along those metrics. Variances were adequately reported and justification was provided in the reports. Outputs and outcomes produced at the country level were captured and aggregated in both the Integrated Monitoring and Documentation Information System and MTSIP progress and final reports. Performance monitoring indicators and mechanisms were therefore assessed as satisfactory.

C. Regulatory framework

Unauthorized expenditures were charged to a key project

20. UN-Habitat contracted partners using a standard Agreement of Cooperation (AoC) for a total value of \$6,148,757 and disbursed \$3,516,986 to partners from March 2010 through August 2012. A review of requests for payment, related supporting documentation, and disbursements against these receivables showed that the UN-Habitat Field Office had, in general, good controls in place as it requested and reviewed supporting documentation and kept track of advances.

21. The standard AoC had no explicit provision regarding payment of salaries to government officials which created a legal loophole for non-admissible expenditure without adequate contractual grounds for recovery. For example, OIOS reviewed a schedule of expenditure certified and provided by one implementing partner's administrative office during the field inspection of the project, which showed that recorded expenditures included monthly salaries in the amount of \$3,600 each for two full time public servants who were already part of the payroll of their respective government offices. The budget attached to the relevant AoC confirmed that no such provision had been specifically made and that funds were intended to hire only additional personnel and consultants to increase the office capacity to deliver as also confirmed by UN-Habitat Field Office staff.

22. UN-Habitat Field Office had not raised the issue with the implementing partner because the partner delayed both the programmatic and financial reporting related to the first advance. There was an unmitigated risk that increased office capacity could not be realized when project funds were diverted to pay government employees already on the implementing partner's payroll.

(1) UN-Habitat should introduce in the standard agreement of cooperation a clause specifying that salary cannot be paid to public servants.

UN-Habitat accepted recommendation 1 and stated that UN-Habitat Haiti was in the process of reviewing its cooperation agreements to enhance accountability, transparency and reporting by all parties. Recommendation 1 remains open pending receipt of copies of revised standard agreement of cooperation.

Inadequate controls over disbursements at UNON

23. The United Nations Office at Nairobi (UNON) is mandated to provide administrative services to UN-Habitat, including payments. OIOS review of sample payments related to procurement and disbursements to partners showed that transactions were generally performed in line with relevant project documents, policies and procedures and existing delegation of authority. However, a request made to UNON for the disbursement of an advance to an implementing partner for the amount of Haitian Gourdes (HTG) 2,213,360 resulted in a wrong disbursement of \$2,213,360 to the beneficiary. The Field Office in Haiti quickly spotted the error on receipt of notification of the fund transfer and was able to notify UNON and the beneficiary, and to recover the overpayment.

24. The incident was caused by human error as the staff member who was responsible for manually transferring data from the portal to IMIS did not change the currency into Haitian Gourde but left it denominated in US dollars. The error was not spotted by the authorizing officer and resulted in the disbursement of the wrong amount. While the case seems to be an isolated one, the materiality of this transaction and the relatively low scrutiny for the unusually high amount of the transaction warrants increased management attention for the processing and authorization of disbursements to prevent financial losses.

(2) The United Nations Office at Nairobi should review current arrangements for processing disbursements to ensure that adequate controls are in place to avoid erroneous payments.

UNON accepted recommendation 2 and stated that it was taking steps to strengthen controls, both manually and via use of systems. Recommendation 2 remains open pending receipt of evidence that adequate controls have been put in place to avoid erroneous payments.

Controls over project assets needed strengthening

25. UN-Habitat retained ownership of project assets used by implementing partners until the end of the project to ensure goods were not diverted from the intended use. Assets were handed over to implementing partners for the duration of the projects and then handed back to UN-Habitat for disposal, in line with its policies. However, in one project, ownership of assets amounting to over \$800,000 was immediately transferred to implementing partners. In another project, UN-Habitat purchased and transferred, or was in the process of transferring, the ownership of vehicles, hardware and software worth \$328,286, to a government ministry and 10 municipalities. As the goods were purchased with resources provided by donors, UN-Habitat was responsible for their correct use and final disposition as specified in the donor agreements.

26. Despite the existence of clear policies on the handling of project assets, Field Office management explained they were not aware of the requirements to retain title until the end of the projects and transferred the title of the assets to the implementing partners on purchase. The situation resulted due to inadequate monitoring and enforcement of existing policies on project assets. There was a risk that goods may be diverted from initially intended use if UN-Habitat did not retain the ownership of the assets until partner obligations were met and after due procedure for disposal of assets was adhered to.

(3) UN-Habitat should put in place a monitoring mechanism to enforce policies for handling project assets for use by implementing partners.

UN-Habitat accepted recommendation 3 and stated that in addition to addressing this particular point, UN-Habitat is taking an active role in improving asset management and control as part of the

implementation of International Public Sector Accounting Standards being implemented in the UN Secretariat. Recommendation 3 remains open pending receipt of evidence of clarification to all UN-Habitat staff of procedures on handling of assets acquired by projects for use by implementing partners.

D. Security management systems

Non-compliance with MOSS

27. UNDSS had performed a MOSS self-assessment at UN-Habitat Field Office in November 2011 following the relocation of the office from the Logistics Base to a stand-alone building in the Haitian capital on July 2011. The review identified a number of deficiencies. The Office had undertaken a number of measures to address some of the weaknesses identified by the assessment; however, UNDSS had not been made aware of progress and a number of weaknesses still needed to be addressed.

(4) UN-Habitat should ensure that the deficiencies identified by the Department of Safety and Security as regards the Haiti Field Office's compliance with the Minimum Operating Security Standards are rectified.

UN-Habitat accepted recommendation 4 and stated that it was working to address the remaining issues. Recommendation 4 remains open pending receipt of documentation showing that the weaknesses identified by DSS have been rectified.

IV. ACKNOWLEDGEMENT

28. OIOS wishes to express its appreciation to the Management and staff of UN-Habitat for the assistance and cooperation extended to the auditors during this assignment.



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STATUS OF AUDIT RECOMMENDATIONS

Audit of UN-Habitat Field Office in Haiti

Recom. no.	Recommendation	Critical/ ¹ important ²	C/ ³ O ³	Actions needed to close recommendation	Implementation date ⁴
1	UN-Habitat should introduce in the standard agreement of cooperation a clause specifying that salary cannot be paid to public servants.	Important	O	UN-Habitat submission of copies of revised standard agreement of cooperation.	31 May 2013
2	The United Nations Office at Nairobi should review current arrangements for processing disbursements to ensure that adequate controls are in place to avoid erroneous payments.	Important	O	UNON submission of evidence of strengthened controls, both manually and limits in IMIS, to prevent erroneous payments.	31 March 2013
3	UN-Habitat should put in place a monitoring mechanism to enforce policies for handling project assets for use by implementing partners.	Important	O	UN-Habitat submission of evidence of clarification to all UN-Habitat staff of procedures on handling of assets acquired by projects for use by implementing partners.	30 April 2013
4	UN-Habitat should ensure that the deficiencies identified by the Department of Safety and Security as regards the Haiti Field Office's compliance with the Minimum Operating Security Standards are rectified.	Important	O	UN-Habitat submission of documentation showing that the weaknesses identified by DSS have been rectified.	30 June 2013

1 Critical recommendations address significant and/or pervasive deficiency or weakness in governance, risk management or internal control processes, such that reasonable assurance cannot be provided regarding the achievement of control and/or business objectives under review.

2 Important recommendations address important deficiencies or weaknesses in governance, risk management or internal control processes, such that reasonable assurance may be at risk regarding the achievement of control and/or business objectives under review.

3 C = closed, O = open

4 Date provided by UN-Habitat and UNON in response to recommendations.